

NORTH AMERICAN ENERGY PARTNERS INC.

CANADIAN SUPPLEMENT TO:

Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2010



This document supplements the Interim Management's Discussion and Analysis for the three and nine months ended December 31, 2010 and has been prepared pursuant to Section 5.2 of National Instrument 51-102- Continuous Disclosure Obligations.

Canadian Supplement to Interim Management's Discussion and Analysis

For the three and nine months ended December 31, 2010

February 1, 2011

Summary of differences between US GAAP and Canadian GAAP

The interim unaudited consolidated financial statements for the three and nine months ended December 31, 2010 and the accompanying interim Management's Discussion and Analysis (MD&A) have been prepared in accordance with United States (US) generally accepted accounting principles (GAAP). As required by National Instrument 52-107, for the fiscal year of adoption of US GAAP and one subsequent fiscal year, we are required to provide a Canadian Supplement to our MD&A that restates, based on financial information reconciled to Canadian GAAP, those parts of our MD&A that would contain material differences if they were based on financial statements prepared in accordance with Canadian GAAP. The Canadian Supplement to the MD&A should be read in conjunction with our interim unaudited financial statements and interim MD&A for the three and nine months ended December 31, 2010, prepared in accordance with US GAAP, and our annual audited financial statements, related MD&A and Canadian Supplement to the MD&A for the year ended March 31, 2010. The consolidated financial statements and additional information relating to our business, including our most recent Annual Information Form (AIF), are available on the Canadian Securities Administrators' SEDAR System at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and our company web site at www.nacg.ca.

The material differences between US GAAP and Canadian GAAP on our financial position and results of operations for the three and nine months ended December 31, 2010 are explained and quantified in **note 22** to our interim financial statements for the three and nine months ended December 31, 2010.

The "Consolidated three and nine month results" tables in this supplement highlight the differences between Canadian and US GAAP. The tables in this supplement reporting the "Reconciliation of net income (loss) to EBITDA and Consolidated EBITDA", "Non-Operating Income and Expense" and "Realized and unrealized (gain) loss on derivative financial instruments" for the three and nine months ended December 31, 2010 and "Summary of Consolidated Quarterly Results" are prepared in accordance with Canadian GAAP. Amounts included in this supplement are in millions of Canadian dollars, except per share information and amounts included in the tables.

Non-GAAP financial measures

In addition to measures based on US GAAP and Canadian GAAP, we use terms such as "net income before interest expense, income taxes, depreciation and amortization" (EBITDA) and "Consolidated EBITDA" (as defined in our credit agreement). These terms are not defined by US GAAP or Canadian GAAP and readers should refer to "Non-GAAP Financial Measures" in our interim MD&A for the three and nine months ended December 31, 2010 and our annual MD&A for the fiscal year ended March 31, 2010.

Consolidated three and nine month results

(dollars in thousands, except per share information)	Three months ended December 31,					
	2010 (Canadian GAAP)	Adjustments	2010 (US GAAP)	2009 (Canadian GAAP)	Adjustments	2009 (US GAAP)
Revenue (e)	\$266,096	\$(1,010)	\$265,086	\$222,714	\$(1,539)	\$221,175
Project costs (e)	149,012	(993)	148,019	90,322	(1,115)	89,207
Equipment costs	58,819	–	58,819	57,512	–	57,512
Equipment operating lease expense	16,940	–	16,940	16,287	–	16,287
Depreciation (a)	10,474	27	10,501	10,512	31	10,543
Gross profit	30,851	(44)	30,807	48,081	(455)	47,626
General and administrative costs (c) and (e)	16,637	(155)	16,482	14,847	(315)	14,532
Operating income	11,325	(71)	11,254	31,104	168	31,272
Net income	\$5,437	\$(1,695)	\$3,742	\$15,577	\$(641)	\$14,936
Per share information						
Net income – basic	\$0.15	\$(0.05)	\$0.10	\$0.43	\$(0.02)	\$0.41
Net income – diluted	\$0.15	\$(0.05)	\$0.10	\$0.43	\$(0.02)	\$0.41
EBITDA	\$26,592	\$(1,790)	\$24,802	\$39,668	\$(357)	\$39,311
Consolidated EBITDA (as defined within our credit agreement)	\$25,519	\$(210)	\$25,309	\$43,844	\$–	\$43,844
	Nine months ended December 31,					
(dollars in thousands, except per share information)	2010 (Canadian GAAP)	Adjustments	2010 (US GAAP)	2009 (Canadian GAAP)	Adjustments	2009 (US GAAP)
Revenue (e)	\$687,547	\$(4,009)	\$683,538	\$540,927	\$(2,531)	\$538,396
Project costs (e)	361,327	(3,591)	357,736	210,834	(1,928)	208,906
Equipment costs	170,180	–	170,180	147,915	–	147,915
Equipment operating lease expense	53,340	–	53,340	44,320	–	44,320
Depreciation (a)	26,675	83	26,758	30,600	93	30,693
Gross profit	76,025	(501)	75,524	107,258	(696)	106,562
General and administrative costs (c) and (e)	45,303	194	45,497	43,928	(502)	43,426
Operating income	25,668	(1,045)	24,623	59,852	495	60,347
Net income (loss)	\$3,755	\$(7,953)	\$(4,198)	\$32,138	\$(2,976)	\$29,162
Per share information						
Net income (loss) – basic	\$0.10	\$(0.22)	\$(0.12)	\$0.89	\$(0.08)	\$0.81
Net income (loss) – diluted	\$0.10	\$(0.22)	\$(0.12)	\$0.87	\$(0.08)	\$0.79
EBITDA	\$60,301	\$(9,002)	\$51,299	\$93,724	\$(2,305)	\$91,419
Consolidated EBITDA (as defined within our credit agreement)	\$61,550	\$(1,453)	\$60,097	\$95,216	\$–	\$95,216

Non-Operating Income and Expense (Canadian GAAP)

(dollars in thousands)	Three months ended December 31,		
	2010	2009	Change
Interest expense			
Interest on 8¾% senior notes and swaps	\$–	\$4,517	\$(4,517)
Interest on capital lease obligations	155	244	(89)
Amortization of deferred financing costs	182	210	(28)
Amortization of premium on Series 1 debentures	(93)	–	(93)
Interest on credit facilities	1,416	893	523
Interest on Series 1 Debentures	5,132	–	5,132
Interest on long term debt	\$6,792	\$5,864	\$928
Other interest	130	263	(133)
Total interest expense	\$6,922	\$6,127	795
Foreign exchange gain	(42)	(5,403)	5,361
Realized and unrealized (gain) loss on derivative financial instruments	(3,609)	7,618	(11,227)
Other expense	27	471	(444)
Income tax expense	2,590	6,714	(4,124)

(dollars in thousands)	Nine months ended December 31,		
	2010	2009	Change
Interest expense			
Interest on 8¾% senior notes and swaps	\$1,238	\$14,468	\$(13,230)
Interest on capital lease obligations	545	805	(260)
Amortization of deferred financing costs	599	649	(50)
Amortization of premium on Series 1 Debentures	(274)	–	(274)
Interest on credit facilities	3,680	1,385	2,295
Interest on Series 1 Debentures	14,999	–	14,999
Interest on long term debt	\$20,787	\$17,307	\$3,480
Other interest	925	578	347
Total interest expense	\$21,712	\$17,885	3,827
Foreign exchange gain	(1,690)	(42,480)	40,790
Realized and unrealized (gain) loss on derivative financial instruments	(4,970)	40,465	(45,435)
Loss on debt extinguishment	1,462	–	1,462
Other expense	18	804	(786)
Income tax expense	5,381	11,040	(5,659)

Realized and unrealized (gain) loss on derivative financial instruments (Canadian GAAP)

(dollars in thousands)	Three months ended December 31,		
	2010	2009	Change
Swap liability loss	\$–	\$3,916	\$(3,916)
Redemption option embedded derivative gain on 8¾% senior notes	–	(578)	578
Redemption options embedded derivatives gain on the Series 1 Debentures	(1,569)	–	(1,569)
Supplier contracts embedded derivatives gain	(2,117)	(254)	(1,863)
Customer contract embedded derivative loss	77	342	(265)
Swap interest payment	–	4,192	(4,192)
Total	\$(3,609)	\$7,618	\$(11,227)

(dollars in thousands)	Nine months ended December 31,		
	2010	2009	Change
Swap liability loss	\$1,783	\$42,733	\$(40,950)
Redemption option embedded derivative gain on 8¾% senior notes	–	(6,318)	6,318
Redemption options embedded derivatives gain on the Series 1 Debentures	(4,630)	–	(4,630)
Supplier contracts embedded derivatives gain	(2,126)	(13,958)	11,832
Customer contract embedded derivative (gain) loss	(325)	6,615	(6,940)
Swap interest payment	328	11,393	(11,065)
Total	\$(4,970)	\$40,465	\$(45,435)

Summary of Consolidated Quarterly Results (Canadian GAAP)

(dollars in millions)	Dec 31,	Sept 30,	June 30,	March 31,	Dec 31,	Sept 30,	June 30,	March 31,
	2010	2010	2010	2010	2009	2009	2009	2009
	Fiscal 2011		Fiscal 2010				Fiscal 2009	
Revenue	\$266.1	\$235.7	\$185.8	\$222.4	\$222.7	\$171.1	\$147.1	\$174.7
Gross profit	30.9	29.3	15.8	32.9	48.1	33.7	25.5	33.0
Operating income (loss)	11.3	13.4	0.9	13.0	31.1	18.8	10.0	(129.3)
Net income (loss)	5.4	5.6	(7.3)	(3.0)	15.6	6.5	10.1	(136.7)
Net income (loss) per share – Basic	\$0.15	\$0.16	\$(0.20)	\$(0.08)	\$0.43	\$0.18	\$0.28	\$(3.79)
Net income (loss) per share – Diluted	0.15	0.15	(0.20)	(0.08)	\$0.43	\$0.18	\$0.28	\$(3.79)

Canadian and United States accounting policies differences

A detailed reconciliation of our results for the three and nine months ended December 31, 2010 is included in note 22 to our interim consolidated financial statements for the three and nine months ended December 31, 2010.

The differences between US GAAP and Canadian GAAP that have the most significant impact on our financial position and results of operations for the three and nine months ended December 31, 2010, include accounting for: capitalization of interest, financing costs, discounts and premiums, derivative financial instruments and stock-based compensation.

a) Capitalization of interest

US GAAP requires capitalization of interest costs as part of the historical cost of acquiring certain qualifying assets that require a period of time to prepare for their intended use. This is not required under Canadian GAAP. The capitalized amount is subject to depreciation in accordance with our policies when the asset is placed into service.

b) Financing costs, discounts and premiums

Under US GAAP, deferred financing costs incurred in connection with our 9.125% Series 1 Debentures and our 8¾% senior notes were being amortized over the term of the related debt using the effective interest method. Prior to April 1, 2007, the transaction costs on the 8¾% senior notes were recorded as a deferred asset under Canadian GAAP and these deferred financing costs were being amortized on a straight-line basis over the term of the debt.

Effective April 1, 2007, we adopted CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”, on a retrospective basis without restatement. Although Section 3855 also requires the use of the effective interest method to account for the amortization of finance costs, the requirement to bifurcate the issuer’s early prepayment option on issuance of debt (which is not required under US GAAP) resulted in an additional premium of \$3.5 million on the Series 1 Debentures that is being amortized over the term of the Series 1 Debentures under Canadian GAAP. The same was being done on the extinguished 8¾% senior notes. The unamortized premium is disclosed as part of the carrying amount of the “Series 1 Debentures” in the interim Consolidated Balance Sheets. Foreign denominated transaction costs, discounts and premiums on the 8¾% senior notes were considered as part of the carrying value of the related financial liability under Canadian GAAP and were subject to foreign currency gains or losses resulting from periodic translation procedures as they were treated as a monetary item under Canadian GAAP. Under US GAAP, foreign denominated transaction costs are considered non-monetary and are not subject to foreign currency gains and losses resulting from periodic translation procedures. The unamortized discounts and premiums on the 8¾% senior notes were expensed on the settlement of the 8¾% senior notes under both Canadian and US GAAP with a difference of \$2.9 million.

In connection with the adoption of Section 3855, transaction costs incurred in connection with our amended and restated credit agreement of \$1.6 million were reclassified from deferred financing costs to intangible assets on April 1, 2007 under Canadian GAAP and these costs continued to be amortized on a straight-line basis over the term of the credit facilities. Under US GAAP, we continue to amortize these transaction costs over the stated term of the related facilities using the effective interest method. We disclose the unamortized deferred financing costs related to the

Series 1 Debentures, the 8¾% senior notes and the credit facilities as “Deferred financing costs” (December 31, 2010 – \$8.0 million; March 31, 2010 – \$6.7 million) on the Interim Consolidated Balance Sheets with the amortization charge classified as “Interest expense” on the Interim Consolidated Statement of Operations and Comprehensive Income (Loss). Under Canadian GAAP, the unamortized financing costs related to the Series 1 Debentures (December 31, 2010 – \$6.4 million) and the 8¾% senior notes (March 31, 2010 – \$1.5 million) are included in “Series 1 Debentures” and “Senior notes” respectively whilst the unamortized deferred financing costs in connection with the credit facilities (December 31, 2010 – \$1.6 million; March 31, 2010 – \$1.1 million) are included in “Intangible assets” on the Interim Consolidated Balance Sheets resulting in a Canadian and US GAAP presentation difference.

c) Stock-based compensation

Up until April 1, 2006, we followed the provisions of ASC 718, “Share-Based Payment”, for US GAAP purposes. As we use the fair value method of accounting for all stock-based compensation payments under Canadian GAAP, there were no differences between Canadian and US GAAP prior to April 1, 2006. On April 1, 2006, we adopted the provisions of SFAS No. 123(R), “Share-Based Payment”, which is now a part of ASC 718. As we used the minimum value method for purposes of complying with ASC 718, we were required to adopt the provisions under the revised guidance prospectively. Under Canadian GAAP, we were permitted to exclude volatility from the determination of the fair value of stock options granted until the filing of our initial registration statement relating to our initial public offering of voting shares on July 21, 2006. As a result, for options issued between April 1, 2006 and July 21, 2006, there is a difference between Canadian and US GAAP relating to the determination of the fair value of options granted.

On September 22, 2010, we modified a senior executive employment agreement to allow the option holder the right to settle options in cash which resulted in 550,000 stock options changing classification from equity to a long term liability. Under US GAAP, such modification is measured at fair value using a model such as Black-Scholes. Under Canadian GAAP, stock options that are cash settled are measured at the amount by which the quoted market value of the shares of our stock covered by the grant exceeds the option price. This resulted in a measurement difference between US and Canadian GAAP. At December 31, 2010, the liability under US GAAP was measured at \$5.4 million of which \$2.2 million was transferred from additional paid-in capital and the difference of \$3.2 million was recognized as incremental compensation cost in the Interim Consolidated Statements of Operations and Comprehensive Income (Loss) under General and administrative costs. Under Canadian GAAP, the liability was measured at \$3.9 million resulting in a transfer of the same amount from additional paid-in capital and the difference of \$1.7 million was recognized as incremental compensation cost.

d) Derivative financial instruments

Under Canadian GAAP, we determined that the issuer’s early prepayment option included in the Series 1 Debentures of \$3.9 million should be bifurcated from the host contract, along with a contingent embedded derivative liability of \$0.4 million in the Series 1 Debentures that provide for accelerated redemption by the holders in certain instances (as defined in the trust indenture that governs the Series 1 Debentures). These embedded derivatives were measured at fair value at April 7, 2010, the inception date of the Series 1 Debentures and the residual amount of the proceeds was allocated to the debt. Changes in fair value of the embedded derivatives are recognized in net income and the carrying amount of the Series 1 Debentures is accreted to par value over the term of the Series 1 Debentures using the effective interest method and is recognized as interest expense as discussed in b) above. The same accounting treatment was used on the extinguished 8¾% senior notes.

Under US GAAP, ASC 815, “Derivatives and Hedging”, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts and debt instruments, be recorded on the balance sheet as either an asset or liability measured at its fair value. The contingent embedded derivative in the Series 1 Debentures that provides for accelerated redemption by the holders in certain instances (as defined in the trust indenture that governs the Series 1 Debentures) did not meet the criteria for bifurcation from the debt contract and separate measurement at fair value and was not bifurcated from the host contract and measured at fair value resulting in a US GAAP and Canadian GAAP difference. The contingent embedded derivative in the 8¾% senior notes that provide for accelerated redemption by the holders in certain instances met the criteria for bifurcation from the debt contract and separate measurement at fair value. The embedded derivative was measured at fair value and changes in fair value recorded in net income for all periods presented. The issuer’s early prepayment option included in both the Series 1 Debentures (as defined in the trust indenture that governs the Series 1 Debentures) and the 8¾% senior notes did not meet the criteria as an embedded derivative under ASC 815 and was not bifurcated from the host contract resulting in a US GAAP and Canadian GAAP difference.

e) Joint venture

Under US GAAP, we record our share of earnings of the JV using the equity method of accounting. Under Canadian GAAP, we use the proportionate consolidation method of accounting for the JV. Under the proportionate consolidation method, we recognize our share of the results of operations, cash flows, and financial position of the JV on a line-by-line basis in our consolidated financial statements. While there is no impact on net income or earnings per share as a result of the US GAAP treatment of the joint venture, as compared to Canadian GAAP, there are presentation differences affecting the disclosures in the consolidated financial statements and supporting notes.

f) Other matters

Other adjustments relate to the tax effect of items (a) through (d) above. The tax effects of temporary differences are described as future income taxes under Canadian GAAP whereas in these financial statements such amounts are described as deferred income taxes under US GAAP. In addition, Canadian GAAP generally refers to additional paid-in capital as contributed surplus for financial statement presentation purposes.

Management's Discussion and Analysis under US GAAP

Please refer to our interim consolidated financial statements for the three and nine months ended December 31, 2010 and our accompanying MD&A under US GAAP, filed February 1, 2011. Our interim MD&A should also be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2010, together with our annual MD&A and Canadian Supplement to the MD&A for the year ended March 31, 2010. The differences between US GAAP and Canadian GAAP, described above, affect the discussion and analysis in several sections of our interim MD&A for the three and nine months ended December 31, 2010.

Additional information

The consolidated financial statements, and additional information relating to our business, including our Annual Information Form (AIF), are available on the Canadian Securities Administrators' SEDAR System at www.sedar.com, the Securities and Exchange Commission's website at www.sec.gov and our company web site at www.nacg.ca.